
COTTON UPDATE – 29 May 2006

The Cumbersome Trail leading from Reference Papers to Modalities

Trade Ministers took advantage of OECD's two-day Council Meeting at Ministerial Level to meet and discuss the recent state of play of the Doha round and to track routes out of a situation that needs be described as somewhat frustrating.

Assessing the situation of the Doha Round as reflected on the negotiating floor over the past few weeks, there is a distinct impression that the few steps forward that have been wrought among Members since Hong Kong have now been reversed by as many steps back. The mood Ministers had to cope with in Paris can be summarized as follows:

- The Agricultural Chair's reference paper on Special Products, released on May 4, poisoned an already tense relationship between developed and developing Members. The paper basically concluded that with the proposed 20% of tariff lines available for "Special Product" exemption, a 'typical' developing Member could cover in excess of 90% of the value of import trade.
- The Agricultural Chair released on May 11 the reference paper on Sensitive Products. This paper has been re-launching the discussion on the number of dutiable tariff lines available for designation as "Sensitive Products". As the Chair stated, the current proposal range, going from 1% to 15% of dutiable lines represents a real chasm. Very much along the lines of the Special Product exemption as mentioned above, the higher end of the Sensitive Product tariff line numbers would allow to cover very substantial parts of overall agricultural trade of 'typical' developed Members.
- In the export competition and food aid discussion, a rather unholy alliance between interested food suppliers and beneficiaries of food aid have dwarfed the argument that food and cash crop production together with free agricultural trade is **the** powerful instrument against poverty and food insecurity in the rural areas of the least-developed countries – and it is there where we find close to 80% of the world poor and hungry.
- Withdrawing from the negotiations was brought up as an African option by an international charity. The proposal caused significant level of discussion, reflecting the mood of many negotiators.

- No strong and visible leadership can be sensed from any of the key Members: For most of them, the domestic front, not only in trade matters, continues to set the priorities – this as well in developed as in emerging Members.

Ministers in Paris limited themselves to finding that

“... Successful conclusion of the negotiations would provide a major boost for the world economy, and for developing countries in particular, and that this would enhance the credibility of the multilateral system. Time is running out and deadlines must not be postponed further. They therefore pledged to seek in the coming weeks the solutions which would address, in a balanced way, all negotiation issues including agriculture, NAMA and services. This should lead to a decisive step towards trade liberalisation and a strengthening of the multilateral rules. Ministers recognised that this task would have to be pursued beyond the conclusion of the Doha Agenda, in particular with regard to sectors and countries that would still present wide scope for liberalisation. ...”

In short, Ministers have scaled down the expectations and have affirmed recent speculation pointing towards a more modest December 2006 result; such a modest result however needs to be followed by an “ongoing” negotiation process.

Preceding the Paris meeting, the Chair of the Agricultural negotiations announced new reference papers addressing blue and green box domestic support and one on overall reduction commitments for trade distorting support. He also mapped out possible approaches for the modalities text he will be drafting. The first would be a bracketed single text; the second would be that of providing alternative scenarios. It appears to be the idea of the Chair to let evolve the reference papers towards ‘modalities’ text, a process already under way and expected to become more intense in June.

The implications for Cotton:

In the recent discussions, cotton was sidelined to a certain extent. However, the significance of the Cotton Initiative as the symbol for trade in favour of development in the Doha Round has been gaining weight.

With the reference papers now evolving towards draft modalities, the C4 needs to place utmost priority on ensuring that the specific, ambitious and expeditious treatment of cotton be translated into the modalities’ text. Attention needs to focus on the domestic support pillar: In what refers to amber box modalities, the formula and base period proposals as introduced by the C4 on March 1 need become an integrated part of modalities. In what refers to blue box trade distorting support, the C4 need to ensure adequate modalities’ text. This can be achieved, depending on the direction negotiations will take, with any of the following approaches:

- by introducing specific disciplines regarding the capping by product;

- by means of other measures addressing the concentration of the blue box on few products;
- by introducing cotton-specific blue box disciplines; this in the case of absence of any product specific blue-box disciplines.

Without agreeing on adequate disciplines in the blue box, any disciplines in the most trade distorting amber box support may well have no impact on the effective support to cotton growers and cotton production in the OECD countries. The market signal that would induce the reduction of un-competitive cotton acreage in the USA and Europe would still run the risk of being drowned out by domestic support measures.

The African countries are well advised to complement the 'acquis' in market access and export competition (duty free & quota free for LDCs; elimination of all forms of export subsidies by end of 2006) with specific objectives for duty free access to the developing countries' markets as these markets are and will increasingly be the major cotton import markets of the world due to dislocation of textile production to those countries.

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